Statement of Airports Council International – North America
Hearing on "Our Nation's Crumbling Infrastructure and the Need for Immediate Action"
Before the House Committee on Ways and Means
March 6, 2019

Chairman Neal and Ranking Member Brady, Airports Council International – North America (ACI-NA) – the trade association representing local, regional, and state governing bodies that own and operate commercial airports throughout the United States – thanks you for holding this important hearing today to examine America's infrastructure needs. We wish to share with you the airport-industry's perspective on this timely issue.

Last week ACI-NA released a new report detailing the significant infrastructure needs of America's airports. With America's airports facing more than $128 billion in new infrastructure needs across the system and a debt burden of $91.6 billion from past projects, the sad reality is that our airports are falling further behind in their effort to upgrade their facilities and improve the overall experience of their customers. It is time to find the means to rebuild our nation's aviation infrastructure and improve the passenger experience for millions of travelers, as the current airport-infrastructure investment system is failing to keep pace with a growing economy. The cost of doing nothing is further paralysis of the aviation system. We are eager to work with you and this committee to advance a meaningful funding plan that will finally address the growing infrastructure needs our country's airports.

Airports Are Terminally Challenged

America's airports are a fundamental component of our nation's transportation infrastructure. In 2017, 1.8 billion passengers and 31.7 million metric tons of cargo traveled through U.S. airports. With a national economic impact of $1.4 trillion, airports contribute more than seven percent to the U.S. gross domestic product and support over 11.5 million jobs around the country. To meet the capacity demands of the future with safe, efficient, and modern facilities that passengers and cargo shippers expect, airports need to make new investments to maintain and modernize our nation's airport infrastructure.

While passenger and cargo traffic through airport facilities continues to grow at a record pace, our outdated aviation infrastructure is not keeping up with demand. As a result, far too many airports around the country are overcrowded and cramped. ACI-NA's most recent infrastructure-needs survey shows that America's airports require more than $128 billion in infrastructure upgrades over a five-year period, with over 50 percent of those needs coming within airport terminals.

Inadequate airport infrastructure that fails to meet the growing needs of local businesses and tourists puts in jeopardy the continued economic growth of American cities, states, and regions. From established metropolitan areas to burgeoning growth regions to small communities, sustained economic growth depends on the expansion of, and investment in, local airports. As the U.S. economy has recovered from the significant economic downturn experienced during the Great Recession, the national unemployment rate has decreased and personal discretionary spending has increased. As such, enplanements nationwide have dramatically improved, growing at a compound annual growth rate of 3.8 percent between 2013 and 2017, putting further pressure on our already overloaded airport facilities.

Airport investment also promotes much-needed competition in the airline industry. New investments in airports can be valuable tools in helping local communities attract new air carriers, which increases competition and leads to lower airfares for passengers. Airports need additional resources to build the terminals, gates, and ramps necessary to attract new air carriers and entice existing ones to expand service. The traveling public gets more choices and lower airfares when airports can build the facilities that provide more airline options and more service alternatives.

In addition to the impact on local economies, deferred airport investment over the past two decades has challenged the ability of airports to deal with the evolving threats posed to aviation security. We live in vastly different times than when most U.S. airports were built, and the airports we have today simply were not designed and outfitted for a post-9/11 world that requires us to maximize both efficiency and security.

The Best Way to Address Airports' Infrastructure-Funding Shortfall

With America's airports facing over $128 billion in infrastructure needs across the system, it is time to find the means to rebuild our nation's aviation infrastructure and improve the passenger experience for millions of air travelers.

It is a common misconception that airports are funded with taxpayer dollars or a general tax on all citizens. In reality, though, infrastructure projects at U.S. airports are funded primarily with federal grants through the FAA's Airport Improvement Program (AIP), a local user-fee called the Passenger Facility Charge (PFC), and airport-generated revenue from tenant rents and fees. Airports often turn to private-capital markets to debt-finance projects, using both PFC-revenue and airport-generated revenue to repay the bonds.

Traditionally AIP grants – which prioritize safety improvements – have been used on airfield projects, while PFC user fees – with greater funding flexibility – have gone towards terminal, ground-access, and major-runway projects. Both are essentially reimbursement programs used to pay for past or existing projects. In the case of PFCs, airports often have committed this revenue-stream for years or decades into the future to repay past projects, meaning they have no new money coming into the system to fund future projects. Federal law requires airports to be self-sustaining, yet it also artificially distorts and constrains the very funding mechanisms designed to ensure market competition and airport-infrastructure growth, as the federal cap on the PFC has been in place since 2000, and federal grants through the AIP have remained stagnant for over a decade.

Thus, under the industry's current financing-funding model airports lack stable, predictable funding sources that keep pace with travel growth, rising construction costs, and inflation for these intensive capital projects. The PFC cap – last adjusted twenty years ago – has seen its purchasing power eroded by 50 percent in the past two decades. And federal airport grants through the AIP have been stagnant for a decade, and will remain so for another five years under the recently enacted FAA reauthorization legislation. Moreover, many airports – even those with sterling credit ratings – have reached their debt capacity and either cannot finance new projects or have had to phase in their projects over a longer timeframe, increasing the costs and delaying the benefits for passengers

Fortunately, we can rebuild America's airports without raising taxes or adding to deficit spending by modernizing the federal cap on the PFC. Modestly adjusting the anti-competitive federal cap on local PFCs would allow airports to take control of their own investment decisions and become more financially self-sufficient. Airports could build the appropriate facilities – terminals, gates, baggage systems, security checkpoints, roadways, and runways – to meet the travel demands and customer expectations of their community.

It is important to note that PFCs are not taxes – they are local user fees determined locally and used locally to help defray the costs of building airport infrastructure that benefits customers by improving the passenger experience and spurring airline competition. PFCs are imposed by states or units of local government; so they are not collected by the federal government, not spent by the federal government, and not deposited into the U.S. Treasury. Instead, PFCs go directly to fund local airport projects approved by the FAA, with input from airlines and local communities.

At a time of mounting pressure on our federal budget, modernizing the federal government's cap on the PFC is the simplest and most free-market option for providing airports with the locally controlled self-help they need to fund vital infrastructure projects. It would give airports more flexibility to self-finance and leverage private investment without the need for additional taxpayer dollars, thereby allowing airports of all sizes to generate more local revenue for terminals, gates, runways, and taxiways that would increase capacity, stimulate competition, enhance safety and security, and improve the overall passenger experience. Ultimately, modernizing the PFC is the best way to meet the travel demands of today and challenges of tomorrow.

Help Airports Finance Critical Infrastructure Projects with Bonds

With limited federal funds available and an outdated federal cap on local user fees, airports often turn to the bond market to help finance their infrastructure projects. To help lower airport borrowing costs, Congress must ensure that airports can continue to finance critical infrastructure projects with tax-exempt municipal bonds and private activity bonds and eliminate the alternative minimum tax penalty on airport private activity bonds.

- Maintain the tax-exempt status of municipal bonds and private activity bonds.

- Exclude airport private activity bonds completely from the alternative minimum tax.

- Allow advance refundings on all municipal bonds, including private activity bonds.

Airports often use bonds to construct and renovate terminals, maintenance facilities, parking garages, and other facilities. Over the past decade, about 60 percent of bonds issued to finance airport capital projects were issued as Private Activity Bonds, a special type of municipal bond that is issued to finance a facility that serves a public purpose for the benefit of a private user like an airline. Without access to cost-efficient financing many airports will be unable to undertake many needed infrastructure-improvement projects—and as a result, the anticipated job creation and economic activity from these activities will not be realized.

Close the Airline Bag Fee Loophole

Finally, air carriers are increasingly relying on revenue generated from checked baggage fees and other ancillary charges and less on base airline ticket fares. Unlike airline tickets, baggage fees and some other ancillary charges are not subject to a 7.5-percent excise tax to support the Airport and Airway Trust Fund (AATF), which helps fund FAA investments in the AIP and the air traffic control system. In other words, the airlines' a la carte pricing model allows carriers to avoid paying aviation excise taxes for services that were once included in the price of traditional airline tickets.

According to the Bureau of Transportation Statistics, the airlines collected more than $37 billion in bag fees and nearly $28 billion in reservation-change fees between 2008 and the third-quarter of 2018. The bag fee loophole alone has cost the AATF approximately $3 billion in foregone revenue during that period, and the annual loss is now about $350 million.

It is time to close the airline bag fee loophole by subjecting bag fees charged by the carriers to the same aviation excise taxes as base airfares. Doing so would ensure that the airlines properly deposit their fair share into the AATF in support of airport-infrastructure projects, air traffic control modernization, and other FAA functions, not the airlines' bottom line.